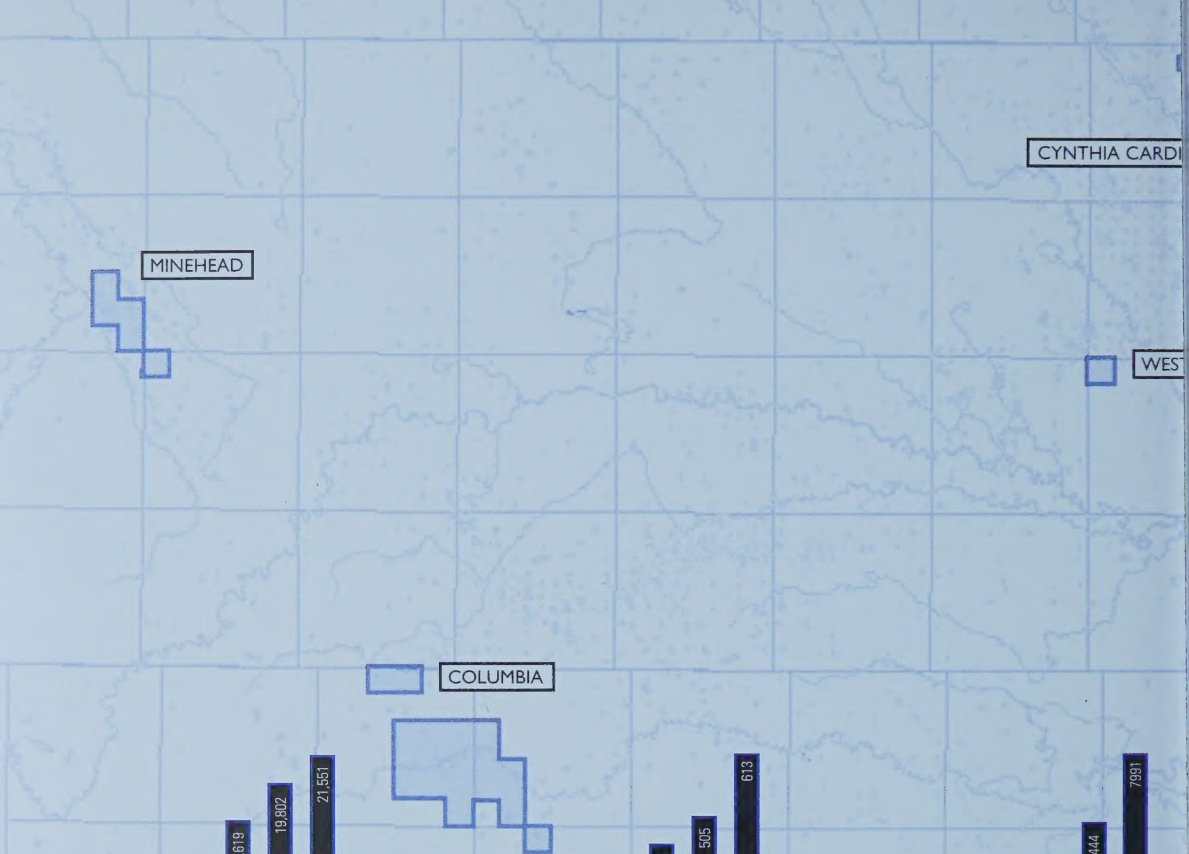
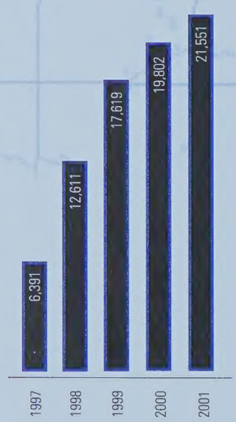
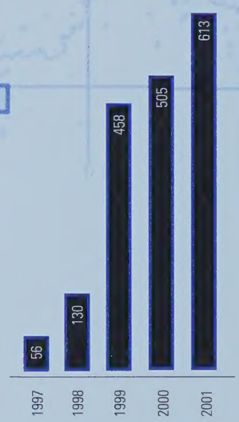
2001 Annual Report

DEL ROCA ENERGY LTD.

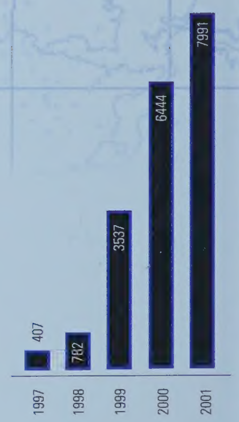




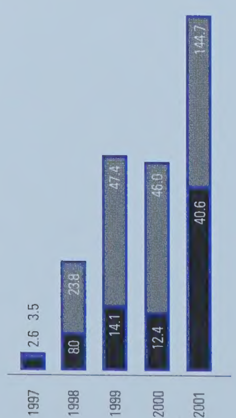
ESTABLISHED RESERVES
($000'S AT 15%)



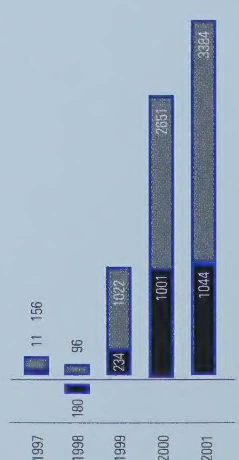
AVERAGE SALES
(BOED)



REVENUE
($000's)

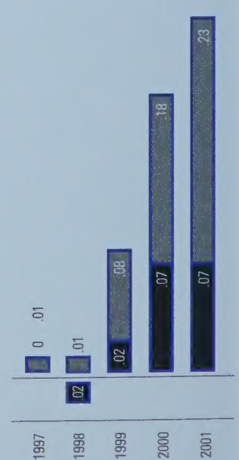


TOTAL ACREAGE
(IN 000'S ACRES)
GROSS NET



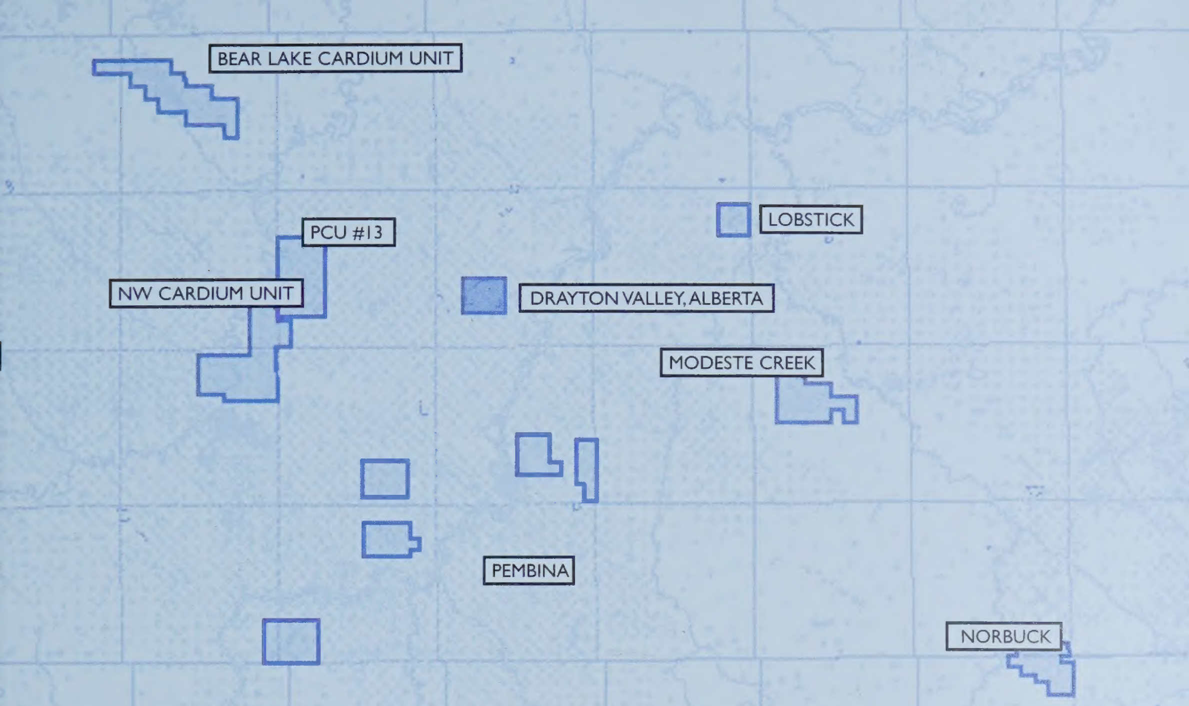
CASH FLOW
& EARNINGS
($000's)

CASH FLOW EARNINGS



CASH FLOW PER SHARE
& EARNINGS PER SHARE
($/SHARE)

CFPS EPS



Summary data

	2001	Change	2000	1999
FINANCIAL ($)				
Revenue	**7,990,794**	24%	6,444,273	3,536,828
Cash flow from operations	**3,383,918**	28%	2,650,862	1,021,983
Cash flow from operations per share	**0.23**	28%	0.18	0.08
Net income	**1,044,431**	4%	1,000,862	234,518
Earnings per share	**0.07**	6%	0.07	0.02
Capital expenditures	**8,722,110**	135%	3,709,300	5,555,129
Long-term debt	**5,900,000**	18%	5,000,000	4,300,000
Shareholders' equity	**11,514,386**	65%	6,999,570	6,686,141
Common shares issued	**17,126,227**	16%	14,759,589	15,048,089
OPERATIONS				
Average daily sales, before royalties				
Oil and NGLs (bpd)	**382**	17%	326	230
Natural gas (mcfd)	**1386**	29%	1,075	1,367
Average combined sales (boepd @ 6:1)	**613**	21%	505	458
Exit rate, combined sales (boepd @ 6:1)	**778**	49%	521	539
Reserves (mboe @ 6:1)				
Total established reserves (mboe @ 6:1)	**3325**	34%	2,486	3,128
Total proven	**2720**	48%	1,841	2,517
Established reserves value, NPV 15%	**21,551,000**	9%	19,802,000	17,619,000
Net asset value	**16,964,000**	9%	15,630,000	13,461,000

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CORPORATE PROFILE

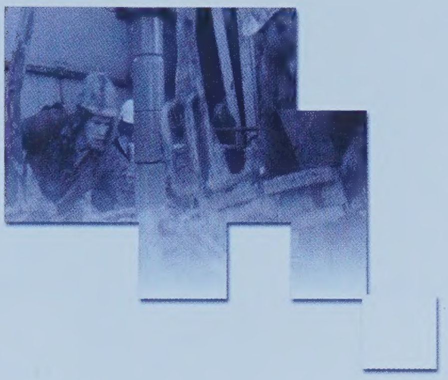
Del Roca Energy Ltd. is a Calgary based junior oil and gas exploration and production company traded on the Canadian Venture Exchange under the trading symbol "DRQ". The Company concentrates on oil projects in the Drayton Valley area and deeper gas projects in the foothills of central Alberta. Del Roca has focused its strategy in the acquisition and maximum exploitation of previously developed properties. The Company's overriding mission is to enhance shareholders' value while operating within the highest business, social and environmental standards.

ANNUAL GENERAL MEETING

The Annual General Meeting of the shareholders of Del Roca Energy Ltd. will be held Thursday, May 30, 2002, 10:00 am at The 400 Club, 710 – 4th Avenue S.W. Calgary, Alberta. Shareholders are cordially invited to attend. Those unable to attend are requested to complete and submit the Proxy Form to the Company's registrar and transfer agent, Computershare Trust Company of Canada.

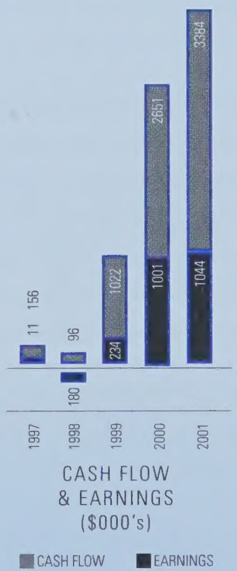
FURTHER INFORMATION

The Company's website is found at www.delroca.com; please check this for current information.



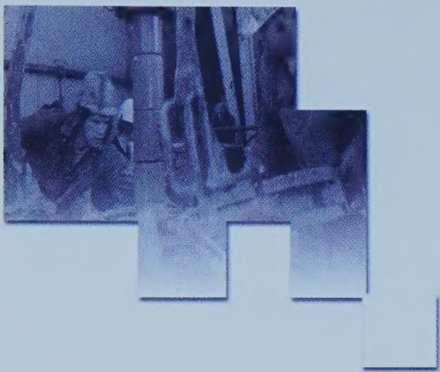
PRESIDENT'S MESSAGE

We are proud to present another year of improved results for Del Roca Energy Ltd. Our steady growth in the face of extreme price volatility, unprecedented world events and industry consolidation underscores the stability and strategic direction of the Company. During 2001, Del Roca showed excellent growth in reserves, achieved good financial gains through production increases and a hedging program, and attracted significant capital subsequent to the disastrous events of September 11th. Our technical teams concentrated on building a long term exploration program with significant land positions to gain exposure to high impact growth through the drill bit. With an inventory of drilling prospects, Del Roca is poised for additional growth at a time when crude and natural gas prices are showing increasing strength.



2001 Highlights

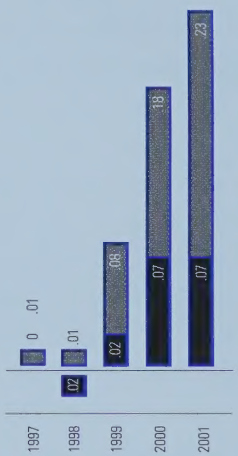
- Completed two major asset acquisitions in the Drayton Valley core area;
- Increased exit sales rates by 49% to 778 boepd from 521 boepd;
- Increased total proven reserves by 48% to 2.7 MMboe from 1.8 MMboe;
- Increased cash flow by 28% to $3.38 million from $2.65 million and cash flow per weighted average share to $0.226 from $0.176;
- Increased earnings by 4% to $1.04 million from $1.00 million, resulting in earnings per share of $0.070;
- Completed two fourth quarter financings of a combination of equity and flow through shares for gross proceeds of $3.8 million from institutional and retail investors; and
- Increased undeveloped land holdings by 202% to 78,822 gross acres from 26,076 gross acres, thereby allowing the Company to embark on an aggressive exploration program in early 2002.



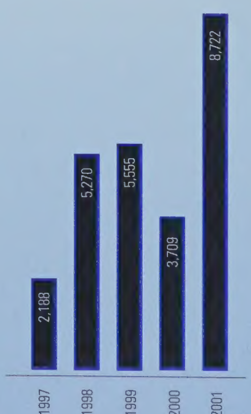
Del Roca entered 2001 at a time of record high commodity prices which fell dramatically by mid year. Despite these severe fluctuations, gross revenues rose by 24% to $8.0 million, and resulted in a cash flow of $3.4 million and net earnings of $1.0 million. Cash flow per share amounted to $0.23, an increase of 28% over the previous year's $0.18 per share, while net earnings of $0.07 per share were recorded, an increase of 6% over the same period.

The Company invested $8.7 million of capital during 2001 on acquisitions, development activities and land. As a result, exit sales rates increased by 49% to 778 boepd from 521 boepd at the end of the prior year, and the total proven reserve base has grown to 2.7 Mmboe from 1.8 Mmboe, a 48% increase over the same period. Total established reserves at January 1, 2002 stand at 3.33 Mmboe, and have been valued by an independent engineering firm at $21.6 million.

During the year, Del Roca concentrated on a balanced growth strategy including acquisitions and a high impact exploration program. Two asset purchases were completed, complementing our strong presence at Drayton Valley and providing additional development opportunities. The acquired assets consist primarily of long life, high quality, Cardium oil properties and strengthened the Company's production and cash flow base for the future. Development activities on Del Roca's existing assets and optimization activities on newly acquired properties resulted in average sales of 613 boepd for the year, a 21% gain over the previous year. Approximately 65% of the total sales consisted of crude oil and liquids.



CASH FLOW PER SHARE & EARNINGS PER SHARE ($/SHARE)

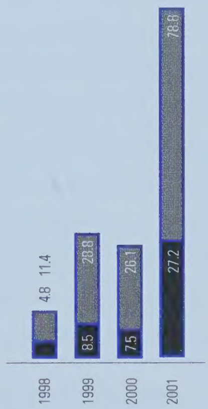


CAPITAL EXPENDITURES ($000'S)

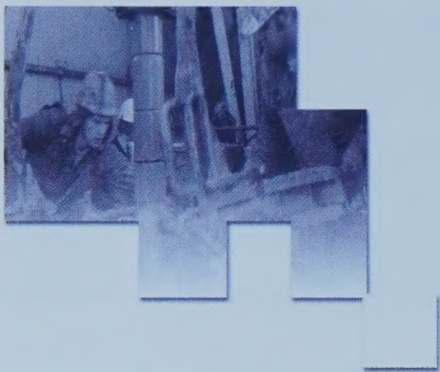
During the fourth quarter, Del Roca completed two private placements for gross proceeds of $3.8 million and attracted new institutional and retail investors.

A strong emphasis was placed on prospect generation and land acquisition, resulting in a significant increase in undeveloped land holdings and drilling opportunities. Del Roca and its 50% First Nations joint venture partner successfully negotiated an exploration permit encompassing 38.5 sections of mineral rights on the Siksika Nation where significant gas potential has been identified. In addition, the Company actively participated at land sales and negotiated several farm-ins, including a significant land position at Cranberry, in northern Alberta, where high impact exploration plays exist. As a result, the undeveloped land position increased to 78,022 gross acres from 26,076 acres, an increase of 202%. A multi-well drilling program targeting high impact prospects was launched for the winter drilling season into early 2002.

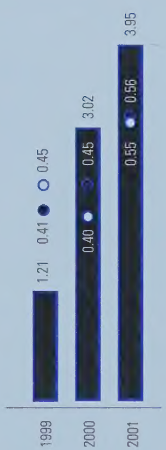
During the fourth quarter, Del Roca completed two private placements for gross proceeds of $3.8 million and attracted new institutional and retail investors. The offerings were based on equity at $0.60 per share and $0.70 per share for the flow-through component, with a total of $1.7 million in flow-through equity being raised. After giving effect to the new equity, Del Roca will have a total of 20.6 million common shares issued and outstanding. The flow-through funds were dedicated to the winter 2001-02 drilling program.



UNDEVELOPED ACREAGE
(IN 000'S ACRES)
GROSS NET



The outlook for Del Roca continues to be very positive as early indicators suggest a rebound for junior producers. Although pricing uncertainty remains, we anticipate that oil prices will fluctuate and gas prices will strengthen throughout 2002. We believe that acquisition opportunities will continue to present themselves, and this will remain a focus for the Company. A large part of our profitable growth can be attributed to value enhancement of under-performing assets through prudent operating procedures. A capital budget of $6.0 million has been set for drilling and development activities, selectively targeting quality prospects. Our balance sheet grants us the flexibility to expand these efforts if appropriate opportunities are available. Our technical expertise and disciplined business approach will provide Del Roca with efficient and sustainable growth well into the future.



SHARE TRADING HISTORY

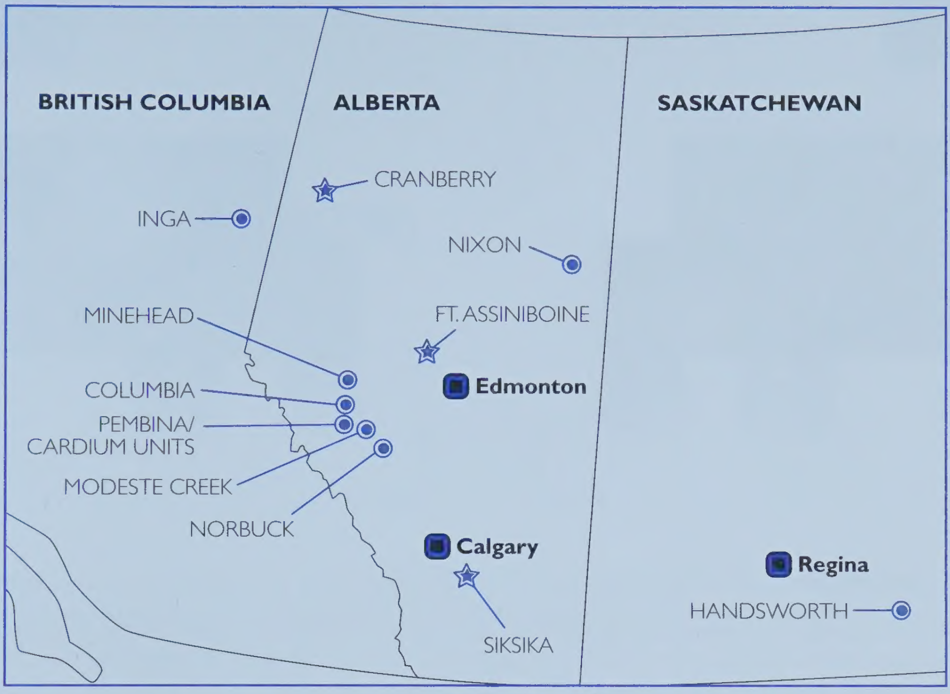
SHARE VOLUME (MILLIONS

YEAR-END PRICE

AVERAGE TRADING PRICE

We would like to take this opportunity to welcome new shareholders to Del Roca, and to thank our directors and employees for their dedication and valued contributions. Messrs. Kingsbury and Ross have resigned from our Board; we thank them for their valued input. Our overriding objective is to enhance shareholders' value while managing the risk profile. To our loyal shareholders, we trust that your patience over the years will be rewarded as markets for juniors improve and we look forward to your continued support while doing our best to reward this trust.

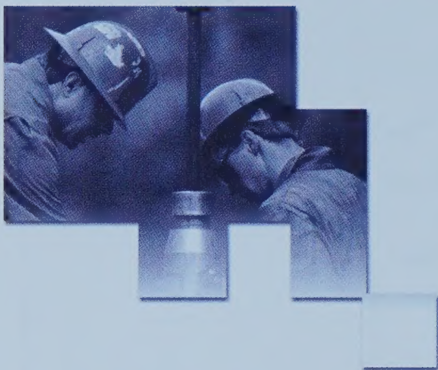
Stanley W. Odut
President and Chief Executive Officer
April 5, 2002



PRINCIPAL PRODUCING PROPERTIES

Production and reserves statistics for Del Roca principal producing properties are as follows:

Area	Operatorship	Average Working Int.	Primary Product	Exit Sales in boepd	Established Reserves(Mboe)
Modeste Creek	DRQ	77%	oil	162	295.2
Pembina	DRQ	85%	oil	160	458.7
Columbia	both	14%	gas	146	1115.9
Norbuck	DRQ	90%	oil	76	617.8
Pembina Cardium Units	Non-op	10%	oil	44	160.5
Frog Lake	DRQ	50%	gas	43	41.8
Minehead	Non-op	5%	gas	42	151.8
Nixon GOR	Non-op	100%	gas	33	125.2
Inga	Non-op	17%	oil	31	112.8
Handsworth	Non-op	5%	oil	27	117.0
Top 10 Properties				764	3196.7
Other Minor properties	both	various	gas	14	128.3
Total				778	3325.0

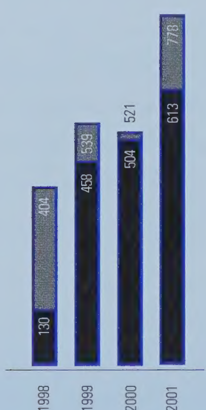


OPERATIONS

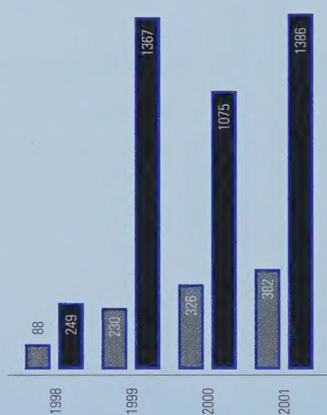
Development Activities

As a result of several major acquisitions during 2001, Del Roca's operational focus concentrated on the assimilation of the new assets. Acquisition expenditures totaled $5.6 million and resulted in net production gains of approximately 250 boepd at the time of closings. Subsequent optimization activities increased production in the Pembina area by over 25% as of year end.

Development and optimization activities carried out on both the new and existing assets totalled over $2.5 million; $1.4 million was spent on development drilling activities as follows:



TOTAL SALES VOLUMES
EXIT BOEPD AVERAGE BOEPD



OIL/GAS VOLUMES
OIL/LIQUIDS BPD NAT'L GAS MCFD

Wells Drilled 2001	Oil-gross	Oil-net	Gas-gross	Gas-net	D&A-gross	D&A-net
Norbuck	1	.9				
Modeste	1	.4				
Pembina			1	.5		
Wood River			1	.15		
Tyrell Lake					1	1
Lobstick					1	.75
Total	2	1.3	2	.65	2	1.75

At Norbuck, a successful well with initial gross production rates of 60 bopd validated geologic and reservoir engineering studies supporting a waterflood scheme. Further drilling is planned for 2002 and depending on results and water availability, an injection project will be undertaken.

Recompletions, stimulations and workovers were undertaken totalling $940,000 and accounted for a substantial portion of the production gains for 2001. Recompletions at Columbia (Viking formation) and Frog Lake (Cummings formation) resulted in new gas production, while workovers at Modeste and Norbuck resulted in additional oil volumes. Production additions from drilling and stimulation efforts totaled over 125 boepd.

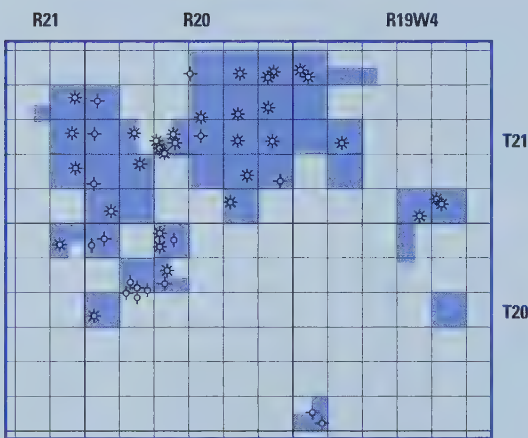
Exploration Activities

During 2001, Del Roca strategically turned to internally generated prospects that could have a material growth impact for the future. Major focus areas were selected on the basis of risk profile, multi-zone and quality reserve potential, availability of land, proximity to infrastructure, and the ultimate cost/reward benefit. The goal was to build a balanced portfolio of short, medium and long-term projects through strategic land acquisitions and joint venture agreements with industry partners. As a result, a significant amount of undeveloped land was acquired or negotiated, and an aggressive drilling program was undertaken in late 2001 and through the winter drilling season. Initial results were mixed, but several very encouraging leads were encountered wherein follow-up geophysical and geological activities are planned to identify potential locations for follow-up drilling.

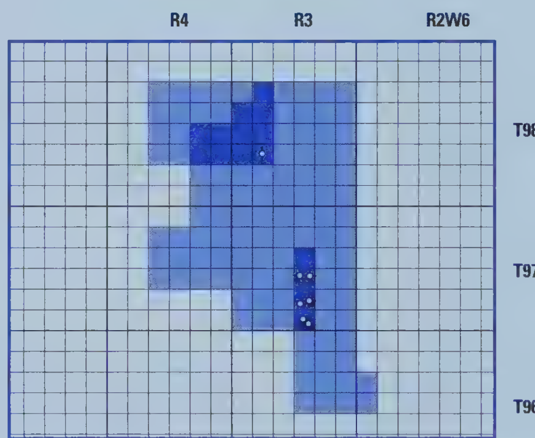
Two potentially high impact tests late in 2001 at Tyrell Lake and Lobstick were drilled and abandoned after encountering uneconomic pay. At Tyrell, additional lands have been acquired and additional seismic evaluation may result in additional drilling in 2002. At Ft. Assiniboine, a six section licence was obtained and a test well (net 30.5%) encountered significant gas pay over water. Additional seismic work is being carried out to identify an optimal follow-up location in 2002.

At Siksika, Del Roca is in a 50/50 joint venture with the Siksika Nation's oil company and negotiated a 38.5 section permit to explore on the Nation's land. This area offers multi-zone gas potential at shallow depths with proximal infrastructure. The first well (net 50%) in this program was drilled and cased for Glauconite gas in early 2002, and will be tied in for production after spring break-up. A further six well program targeting Bow Island and Belly River formations is planned by the partners for mid-2002. Additional shallow long-life Milk River and Medicine Hat gas potential exists on the lands to be developed after the initial earning program has been carried out.

In the Cranberry area, Del Roca focused on the prolific Slave Point formation and in early 2002, participated in two test wells (net 20%). The first was D&A and the second was cased as a potential gas well for Shunda production, after encountering encouraging Slave Point indications. As a result of this drilling, Del Roca has earned into 13 gross sections of land. Further geophysical activity is planned in order to identify potential locations for the next drilling season. Two additional wells (net 33%) targeting Shunda gas were cased in early 2002. The wells will be evaluated for tie-in after freeze-up next winter.



Siksika



Cranberry-Botha AMI

earned

Land Holdings

Del Roca increased its undeveloped land holdings by 202% to 78,822 gross acres from 26,076 gross acres and total gross acreage grew by 215% to 144,733 acres. Land sales were pursued aggressively, and approximately $0.3 million was spent at land auction. A large Permit to Explore was negotiated at Siksika, and a significant land position was negotiated at Cranberry. Property acquisitions accounted for the gains in developed land holdings.

			2001			2000
In acres:	Gross	Net	WI	Gross	Net	WI
Developed	65,911	13,387	20%	19,921	4,948	25%
Undeveloped	78,822	27,177	34%	26,076	7,493	29%
Total	144,733	40,564	28%	45,997	12,441	27%

RESERVES INFORMATION

Reserves Information

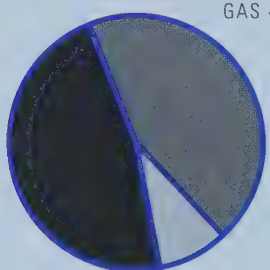
Del Roca has engaged the engineering firm of Chapman Petroleum Engineering Ltd. ("Chapman") to independently evaluate the Company's reserves on an annual basis since 1997. Chapman provided a report dated February 8, 2002 detailing Del Roca's current reserves. The Chapman report was prepared in accordance with the National Policy 2-B (Guide for Engineers and Geologists Submitting Oil and Gas Reports to Canadian Provincial Securities Administrators) definitions. The Company's Reserves Audit Committee and the Board of Directors have reviewed the evaluation process with management and Chapman, and accept the reserves and economic evaluation report as stated.

Reserves

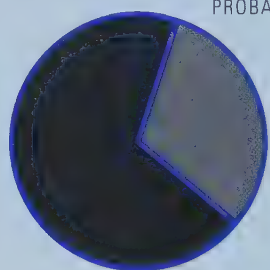
As at January 1, 2002, Del Roca's total proved reserve base consists of 1.2 million barrels of oil, 7.5 Bcf of sales gas and over a quarter million barrels of natural gas liquids, or 2.7 million barrels of oil equivalent. The current total proved reserve represents an increase of about 850 mboe from the 1,845 mboe recorded last year, resulting in a 46% increase. The established (proved plus half-probable) reserve increased to 3.3 mmboe from 2.5 mmboe (+34%). The growth in reserves was largely due to the acquisition of high-quality, long-life assets, a portion of which are located in Del Roca's core area of Drayton Valley. These acquisitions added immediate cash flow and proved producing reserves at very reasonable prices.

Reserve Summary	2001	2000	1999
Crude Oil (mbbls)			
Proved	1,211	875	1,315
Proved plus Probable	1,926	1,747	2,339
Natural Gas (mmcf)			
Proved	7,510	4,714	5,643
Proved plus Probable	9,913	6,773	6,639
NGL's (mbbls)			
Proved	257	179	261
Proved plus Probable	352	255	294
Barrels of Oil Equivalent (mboes) at 6:1			
Total Proved	2720	1840	2516
Established (proved plus half probable)	3,325	2,485	3,128

Del Roca's reserve base is evenly distributed on a boe basis by product, 47% oil, 44% sales gas and 9% NGL's, which stabilizes the Corporation's value relative to volatile commodity pricing. Our long reserve life, 12.1 years on total proved basis, mitigates the impact of any short-term commodity price swings on the value of the Corporation. Del Roca's proved producing reserve makes up 99% of our total proved reserve, which in turn, makes up 69% of our proved plus probable reserve. Del Roca's reserve base is also spread amongst several properties, each of which consists of numerous wells, thereby minimizing the Company's production risk.



2001 ESTABLISHED
RESERVES COMPOSITION
(PROVEN PLUS HALF PROBABLES)



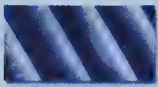
2001
RESERVES DEVELOPMENT

Reserve Value

Using Chapman's January 1, 2002 price forecast on a before tax basis, the Company's established reserves were valued at $21.6 million (discounted at 15%) and $27.0 million (discounted at 10%). The Company's proved producing reserves were valued at $18.1 million (discounted at 15%) and $21.9 million (discounted at 10%). Not withstanding the significant drop in commodity pricing in the year over year price forecasts, Del Roca increased the value of its reserve base mainly through aquisitions.

Net Present Value of Reserves

($ thousands, before income taxes, discount @ 15%)	2001	2000	1999
Proved Producing	18,057	14,997	13,735
Proved Non Producing	257	1,549	1,405
Total Proved	18,315	16,546	15,140
Probable	6,473	6,513	4,958
Total Proved Plus Probable	24,788	23,059	20,098
Established	21,551	19,802	17,618



Price Forecasts*

	January 1, 2002			January 1, 2001		
	Oil WTI (US$/bbl)	Oil Edm. Par (C$/bbl)	Gas Reference (C$/mcf)	Oil WTI (US$/bbl)	Oil Edm. Par (C$/bbl)	Gas Reference (C$/mcf)
Actual						
1999	19.21	27.88	2.48	19.21	27.88	2.48
2000	30.39	44.90	4.50	30.39	44.90	4.50
2001	25.98	39.66	5.78			5.78
Forecast						
2001				26.25	38.64	5.50
2002	20.00	30.37	3.50	25.00	36.79	4.00
2003	22.50	34.22	3.75	25.75	37.89	4.12
2004	23.75	36.14	4.00	26.51	39.03	4.24

* Chapman Petroleum Engineering Ltd.'s complete price forecast can be found at their website (www.chapeng.ca).

Reserve Reconciliation

Reconciliation – Barrels of Oil Equivalent (mboe)

	Total Proved	Probable	Proved Plus Probable
December 31, 2000	1,840	1,291	3,131
Extensions & Discoveries	169	88	257
Technical Revisions	32	(139)	(107)
Acquisitions & Dispositions	903	(30)	873
Reserve Additions	1,104	(81)	1,023
Production	(224)	0	(224)
December 31, 2001	2,720	1,211	3,930

On a proved basis, Del Roca added 1.1 million boe, (or 60% of its prior year end reserve), in 2001 before production of 224,000 boe. The major growth in the Corporation's reserve base is attributed to acquisitions where the net gain totalled 903 mboe. Del Roca bought interests in:

- the Pembina Cardium Unit #13 (68.6% - operated);
- 23 non-unit producing Cardium oil wells (average 66.0% - operated);
- the Cynthia Cardium Unit #4 (21.1% - non-operated);
- the Pembina Bear Lake Unit #1 (2.7% - non-operated);
- the North West Pembina Cardium Unit #1 (6.6% - non-operated).

All these acquisitions are located in the Corporation's core area of Drayton Valley, AB. These properties are long life producing oil assets with waterflood optimization, cost reduction and production enhancement potential. In addition, Del Roca purchased interests in:

- the Inga No. 1 unit (17.7% - non-operated) in NE British Columbia which has waterflood optimization potential as well as an independent custom processing revenue stream; and,
- a gross overriding royalty in natural gas assets at Nixon in NE Alberta

Development activities at Norbuck, Wood River, Frog Lake and Glendon resulted in new reserve additions of 169 mboe while technical revisions were marginally positive at 32 mboe.

Reserve Quality Indicators

Reserve Life Index- Oil Equivalent	2001	2000	1999
Production (mboe)	**224**	184	167
Proved Reserves (mboe)	**2,720**	1,840	2,517
Proved Reserve Life Index (yrs)	**12.1**	10	15.1

Replacement Ratio	2001	Recycle Ratio	2001
Production (mboe)	224	Operating Netbacks ($/boe)	21.25
Proved Reserve Additions (mboe)	1,104	Proved F & D Costs ($/boe)	7.72
Proved Replacement Ratio	4.9	Proved Recyle Ratio	2.8

Net Asset Value Per Share

(in 000's except per share)	2001	2000
Established reserves discounted at 15% before income tax	$21,551	$19,802
Undeveloped land (at $77/acre)	2,103	749
Net working capital	-790	79
Bank debt	-5,900	-5,000
	$16,964	$15,630
Basic shares outstanding	17,126	14,760
Net asset value per share - basic	$0.99	$1.06
Basic plus special warrants[†]	20,665	
Net asset value per share - basic & special warrants	$0.82	

([†]At December 31, 2001 Del Roca had 3,539,166 special warrants outstanding.)

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis should be read in conjunction with the financial statements and accompanying notes. Units revenues and costs for this analysis are based on barrels of oil equivalents ("BOE") wherein natural gas is converted to oil equivalent on the basis of 6 mcf to one barrel of oil and natural gas liquids are converted to a barrel of oil equivalent on a one-to-one basis unless otherwise indicated.

Highlights:

	2001	% Change	2000	1999	1998
Financial (in $000's except per unit amounts):					
Gross revenues	7,991	24%	6,444	3,537	782
Cash flow from operations	3,384	28%	2,651	1,022	96
Cash flow per share - basic	$0.226	28%	$0.176	$0.08	$0.01
Cash flow per share - fully diluted	$0.217	23%	$0.176	$	$
Net Earnings	1,044	4%	1,001	235	(180)
Earnings per share - basic	$0.070	6%	$0.066	$0.02	($0.02)
Earnings per share - fully diluted	$0.067	2%	$0.066	$0.02	($0.02)
Operating netback per boe	$21.25	4%	$20.45	$11.62	$8.46
Administration costs per boe	$4.07	3%	$3.94	$4.11	$6.97
Capital expenditures – exploitation	3,117	(16%)	3,709	1,591	468
Net acquisition (disposition) costs	5,405		(1,255)	3965	4802
Long term debt	5900	18%	5000	4300	1500
Total assets	21867	44%	15197	13186	7295
Shareholders' equity	11514	65%	7000	6686	5207
Total market capitalization	20242	63%	12439	11961	5437
Shares at period end	17126	16%	14760	15048	12640
Operations (in 000's except per unit amounts):					
Average oil and liquids sales - bpd	382	17%	326	230	88
Average natural gas sales - mcfd	1386	29%	1075	1367	249
Average boepd (@ 10:1 / 6:1)	520/613	20/21	433/504	367/458	113/130
Exit boepd (@ 10:1 / 6:1)	673/778	50/49	447/521	455/539	303/404
Total established reserves (Mboe 6:1)	3325	34%	2486	3128	3041
Established reserve value (NPV15BIT)	$21551	9%	$19802	$17619	$12611
Net asset value	$16964	9%	$15630	$13431	$11379

Oil and Gas Production:

Del Roca's **gross revenues** increased by 24% during 2001 to total $7,991,000 and consisted of the following:

Production revenue before royalties ($)	2001	2000	1999	1998
Oil revenue before hedging	4,403,975	4,399,988	1,702,499	500,203
Price hedging gains (losses)	199,497	-478,595	-47,409	0
Oil revenue net of hedging	4,603,472	3,921,393	1,655,090	500,203
Natural gas revenue before hedging	2,358,243	1,916,491	1,377,612	238,478
Price hedging gains (losses)	154,684	0	0	0
Natural gas revenue net of hedging	2,512,927	1,916,491	1,377,612	238,478
Natural gas liquids revenue	520,881	606,389	504,126	69,725
Natural Gas Overriding Royalty	353,515	0	0	0
Total Production Revenues	7,990,795	6,444,273	3,536,828	808,406

The variance in the year-over-year revenue is attributable to the following:

Gross revenue reconciliation	Oil	Natural Gas	NGLS	Total
2000 gross revenue	3,921,000	1,917,000	606,000	6,444,000
Price impact	-79,000	306,000	-92,000	135,000
Volume impact	-220,000	200,000	-15,000	-35,000
Property acquisitions	1,032,000	444,000	22,000	1,498,000
Property dispositions	-51,000			-51,000
2001 gross revenue	4,603,000	2,867,000	521,000	7,991,000

Product prices improved during 2001 primarily due to movement in the underlying reference prices. Crude oil is sold under "evergreen" 30 day contracts, and is based on the U.S. dollar denominated West Texas Intermediate reference price adjusted for foreign exchange, transportation, tariffs and quality adjustment. The majority of Del Roca's natural gas is sold under aggregator contracts subject to pool pricing. Del Roca will hedge a portion of its production when prices seem advantageous or to lock in certain acquisition economics, as was the case in 2000-2001.

Average wellhead prices, before royalties	2001	2000	1999	1998
Oil revenue before hedging	35.64	42.66	28.34	18.02
Price hedging gains (losses)	1.61	-4.64	-0.79	0.00
Oil revenue net of hedging	37.26	38.02	27.55	18.02
Natural gas revenue before hedging	5.36	4.88	2.76	2.62
Price hedging gains (losses)	0.31	0.00	0.00	0.00
Natural gas revenue net of hedging	5.66	4.88	2.76	2.62
Natural gas liquids revenue	33.04	38.99	21.13	15.87
Combined	35.73	35.00	21.17	16.54

Sales volumes increased 21% during 2001 to average 613 boepd with increased natural gas sales accounting for the largest increment. The property acquisitions made by Del Roca during 2001 were predominately crude oil producing properties, but the acquisition of a natural gas gross overriding royalty at Nixon was a very strong contributor to cash flow during 2001. In addition, the Modeste gas conservation program implemented in late 2000 continued to augment the Corporation's gas volumes. Exit rates have increased 49% to the current 778 boepd reflecting in part the acquisition in October, 2001 of producing properties and subsequent development work on these properties.

Sales Volumes	Oil	Natural Gas	Liquids	Total
2000 exit rate:	292	1,100	46	521
Impact of:				
Acquisitions	235	250	1	278
Drillings	0	200	1	34
Infrastructure & facilities	0	100	1	18
Natural declines	-50	-82	-3	-67
Dispositions	-6			-6
2001 exit rate	471	1,568	46	778

Del Roca's **net royalties** increased to $794,000 in 2001 period from $780,000 for the 2000 period, but fell as a percentage of revenues because of the impact of the property acquisitions. Royalty income from Nixon is not encumbered by further royalties, and many of the properties acquired qualify for low productivity royalty allowances. The reduction in ARTC during 2001 is attributable to lower royalties overall on qualifying wells. Del Roca's **operating costs** averaged $10.93/boe for 2001, including $12.00/boe for the fourth quarter of the year. This compares with $10.31/boe and $9.73/boe for the comparative period in 2000. The higher costs in the fourth quarter of 2001 are attributable in large part to the newly acquired properties, which required substantial effort to restore production; however, a key attraction to the acquisition of these properties was the amount of production that could be added through a "one time" concentrated maintenance program.

General and administrative costs in 2001 averaged $4.07/boe, slightly up from the $3.94/boe in 2000. The increase is primarily due to higher staff and support costs. The Company benefitted from improved overhead recoveries due to a higher level of operated activity. Del Roca capitalizes a portion of its overhead representing the estimated time value spent by employees and consultants on capital projects. The Company operates the majority of its oil production, and a portion of its gas production. At year-end, Del Roca staffed six employees and four consultants, aggregating to about eight full time equivalents.

General and administrative costs ($)	2001	2000	1999	1998
Gross administrative costs	1,346,782	1,058,403	915,467	468,592
Overhead recoveries from operation	-199,726	-165,210	-73,003	-35,700
Capitalized geological overhead	-142,530	-99,075	-96,000	0
Capitalized acquisition & develop	-94,432	-82,202	-59,400	-103,000
Net administrative costs	910,094	711,916	687,064	329,892

Interest Expense

The Company's interest expense totalled $421,000 and consists primarily of interest on the revolving production loan established with the Alberta Treasury Branches. This facility is for a maximum of $10 million and bears interest at bank prime plus 1/2% paid monthly. The effective rate for 2001 was 6.51% based on an average balance outstanding of 6,050,000. Interest expense also includes bank charges, renewal fees, and interest and other charges on trade and operating accounts.

Income Taxes

Del Roca is not currently taxable on its income due to available tax pools, but is subject to current tax due to federal and provincial capital taxes and resource surcharges. The Company's future income tax provision for 2001 totals $542,000 or 33% of pre-tax income, virtually unchanged from 2000.

It is estimated that the Company may become liable for current income tax within the next year, based on current production and price forecasts and due to the renunciation of certain of its future tax pools under flow through agreements entered into in the late fall of 2001. Under these agreements, Del Roca committed to incurring $1 million of Canadian Development Expenditures and $700,000 of Canadian Exploration Expenditures before December 31, 2002; as of December 31, 2001 Del Roca had incurred $249,000 of qualifying exploration expenditures against these obligations.

December 31, 2001 tax pools:	Remaining Balance	Writeoff rate
CCOGPE	7,861,000	10%
CCDE	1,702,000	30%
CCEE	741,000	100%
UCC	4,979,000	20-30%
Non-capital losses and other	407,000	7 - 100%
Attributed Cdn Royalty Income	1,170,000	14% provincial

Subsequent to year-end Del Roca acquired $207,000 of oil and gas assets with full tax pools and embarked on a multi-well drilling program. The CCEE and a portion of the Attributed Canadian Royalty Income identified above is restricted to income from certain properties and may not be fully realizable.

Cash Flow and Earnings

Del Roca's cash flow improved due to the higher production levels for the year and improved cash netbacks attributable to improved average prices and the higher-netback royalty income stream. Net earnings growth slowed as the corporate depletion rate increased over the prior year due to infrastructure and drilling costs outpacing reserve growth.

Netbacks	2001	2000	1999	1998
Annual prod'n (boe @ 6:1)	223,660	184,100	167,069	47,305
Blended production revenue	$35.73	$35.00	$21.17	$16.54
Royalties	-3.55	-4.24	-2.15	-1.30
Operating Costs	-10.93	-10.31	-7.40	-6.78
Operating netback	21.25	20.45	11.62	8.46
Administration	-4.07	-3.94	-4.11	-6.97
Financing charges	-1.88	-1.98	-1.39	0.53
Cash netback	15.30	14.53	6.12	2.02
Depletion, abandonment & other	-8.04	-6.14	-3.65	-5.82
Income taxes	-2.59	-2.95	-0.96	0.00
Earnings netback	$4.67	$5.44	$1.51	-$3.80

Liquidity and Capital Resources:

During 2001 Del Roca spent $8.6 million in adding to its reserves base, financing this with $3.4 million of net new equity, $3.4 million of cash flow and a $1.8 million increase in net debt. The Corporation uses debt to acquire proven, producing reserves and feels that interest rates will remain low for the near and mid-term future with the result that the leverage is beneficial to the cash flow and earnings per share measures. The next scheduled renewal for the bank line is June 2002.

At December 31, 2001 Del Roca had the following equity and convertible instruments outstanding:

Common shares	17,126,227
Weighted average for year	14,991,453
Special Warrants	3,539,166
Fully diluted shares for 2001	15,627,690
Employee stock options	1,090,000
Agents' options and warrants	418,260

The special warrants are fully convertible into common shares at no extra cost and were converted effective April 11, 2002. The average exercise price for the employee options is $0.56/share and for the agents' convertible instruments is $0.60/share. During 2001 Del Roca stock trading volume totaled 3,951,000 shares, a 31% increase over 2000 and the average trading price was $0.563/share, up over $0.10/share from the $0.454/share average for 2000. Del Roca's stock closed the year at $0.55/share (2000-$0.40).

Capitalization ($000's)	At Cost	At Cost	At Market	At Market
	2001	2000	2001	2000
Common shares	7,403,406	5,934,335	9,419,425	5,903,836
Special warrants	2,145,114	0	1,946,541	0
Long term debt	5,900,000	5,000,000	5,900,000	5,000,000
Working capital deficiency (surplus)	789,267	-79,633	789,267	-79,633
Future income taxes	2,073,800	1,567,050	2,073,800	1,567,050
Future abandonment provision	113,012	47,368	113,012	47,368
total	18,424,599	12,469,120	20,242,045	12,438,621

Normal Course Issuer Bid

Included in the 2001 trading volume was 793,500 shares repurchased by the Company under normal course issuer bids, at an average cost of $0.593/share. Based on its net asset value, Del Roca feels that the stock price in the market significantly undervalues the Company and therefore the buybacks under a normal course issuer bid presents a low risk means of adding tangible asset backing for the remaining shareholders. Subsequent to year-end and up to the bid's expiry on March 28, 2002 the Company repurchased an additional 189,000 shares at an average cost of $0.544/share. The Company has received approval for a normal course issuer bid for the period April 8, 2002 to April 7, 2003 to repurchase up to a maximum of 1,130,000 common shares if it feels that the repurchase adds value for its shareholders.

Capital Spending and Capital Assets:

Del Roca's capital program for 2001 was dominated by acquisition activity, as $5.6 million was spent to acquire producing properties at an average of $6.48 per barrel of proven reserves.

Capital Expenditure	2001	2000	1999	1998
Land acquisition	313,572	79,217	235,000	0
Geological & Geophysical	17,716	50,649	0	
Drilling/completions	1,388,026	1,803,972	817,000	0
Producing property aquisitions	5,623,907	3,828,000	5,069,000	
Producing property dispositions	-200,000	-1,254,586	-100,000	0
Major workovers	940,106	296,481	178,000	80,000
G&A capitalized	226,962	181,277	155,000	103,000
Finding costs	8,310,289	1,157,010	5,113,000	5,252,000
Facilities	198,880	1,270,787	417,000	0
Corporate	12,940	25,796	25,000	19,000
Finding and development costs	8,522,109	2,453,593	5,555,000	5,271,000

The ceiling test was calculated using end-of-year prices of $19.78/bbl (US WTI) and $3.55/mmbtu (Alberta gas reference price), and no writedown was required.

The Company's combined depletion, depreciation and abandonment provision rate exiting 2001 is approximately $7.80/boe which is virtually unchanged from the $7.89/boe entry rate. The current rate is comprised of $7.18/boe of depletion/depreciation and $0.62/boe of abandonment provision.

Sensitivity Analysis:
Due to its product diversification, Del Roca feels it is well positioned for 2002. Cash flow sensitivities for 2002, based on current budget targets, are estimated as follows:

	Cash flow	CFPS*
Natural Gas:		
Change in average price of $0.10/mcf	102,000	0.005
Change in average production of 100 mcfd	103,000	0.005
Oil:		
Change in average price of $1.00/bbl (US WTI)	319,000	0.015
Change in average production of 10 bopd	53,000	0.003
Foreign exchange change of $0.01	96,000	0.005
Interest rate change of 0.5%	38,000	0.002

* based on total of basic shares plus special warrants

MANAGEMENT'S REPORT

The accompanying financial statements and all information in this annual report are the responsibility of management and have been approved by the Board of Directors. These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Timely disclosure dictates that financial statements will contain estimates and certain amounts based on the judgement of management using data available at that time. In the opinion of management, the accompanying financial statements present fairly the financial position and results of operations of the Company in all material respects. Financial and operating information presented elsewhere in this annual report is consistent with the results summarized in the financial statements.

Management maintains the appropriate systems of internal controls to safeguard assets and enable accurate and timely financial and operational reporting. The accuracy of the financial reporting has been examined by independent auditors, Meyers Norris Penny LLP Chartered Accountants. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for stewardship and financial reporting, and is ultimately responsible for reviewing and approving the financial statements. The Board exercises this responsibility through its Audit Committee, which is comprised entirely of outside directors. This committee meets with management and the external auditors to satisfy itself that management's responsibilities are properly discharged and to review financial statements before they are presented to the Board of Directors for approval.

Stanley W. Odut
President & Chief Executive Officer

Dale R. Renz
Chief Financial Officer

AUDITORS' REPORT

To the Shareholders of Del Roca Energy Ltd.

We have audited the balance sheets of Del Roca Energy Ltd. as at December 31, 2001 and 2000 and the statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2001 and 2000 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Meyers Norris Penny LLP

February 26, 2002
Calgary, Alberta
Chartered Accountants

BALANCE SHEETS

As at December 31

	2001	*2000*
Assets		
Current		
Cash	**12,720**	38,378
Acquisition deposit	**–**	350,000
Accounts receivable	**1,463,542**	1,274,075
Capital assets *(Note 3)*	**20,390,465**	13,534,355
	1,476,262	1,662,453
	21,866,727	15,196,808
Liabilities		
Accounts payable and accruals	**2,245,679**	1,561,520
Capital taxes and surcharges payable	**19,850**	21,300
	2,265,529	1,582,820
Long-term debt *(Note 4)*	**5,900,000**	5,000,000
Future income tax *(Note 6)*	**2,073,800**	1,567,050
Provision for site restoration	**113,012**	47,368
	10,352,341	8,197,238
Shareholders' Equity		
Share capital *(Note 5)*	**7,403,406**	5,934,335
Special warrants *(Note 5)*	**2,145,114**	–
Retained earnings	**1,965,866**	1,065,235
	11,514,386	6,999,570
	21,866,727	15,196,808

Approved on behalf of the Board:

Director **Director**

STATEMENTS OF OPERATIONS & RETAINED EARNINGS

For the years ended December 31

	2001	*2000*
Revenue		
Oil and gas production	**7,990,794**	6,444,273
Royalties	**(861,557)**	(872,728)
Alberta Royalty Tax Credit	**67,450**	92,759
	7,196,687	5,664,304
Expenses		
Oil and gas production	**2,443,933**	1,898,647
General and administrative	**910,094**	711,916
Interest	**420,892**	378,679
Write-down of investment	**13,887**	–
Depletion and amortization	**1,783,600**	1,131,000
	5,572,406	4,120,242
Income before taxes	**1,624,281**	1,544,062
Future income taxes *(Note 6)*	**542,000**	519,000
Capital taxes and surcharges	**37,850**	24,200
Net income	**1,044,431**	1,000,862
Retained earnings, beginning of year	**1,065,235**	64,373
Share repurchase *(Note 5)*	**(143,800)**	–
Retained earnings, end of year	**1,965,866**	1,065,235
Net income per share		
Basic	**0.070**	0.066
Fully diluted	**0.067**	0.066

STATEMENTS OF CASH FLOWS

For the years ended December 31

	2001	*2000*
Cash provided by (used for) the following activities		
Operating activities		
Net income	**1,044,431**	1,000,862
Add items not involving cash:		
Future income taxes	**542,000**	519,000
Abandonment provision	**117,600**	41,400
Depletion and amortization	**1,666,000**	1,089,600
Write-down of investment	**13,887**	–
	3,383,918	2,650,862
Changes in non-cash working capital *(Note 7)*	**263,355**	(40,290)
	3,647,273	2,610,572
Financing activities		
Repurchase of common shares	**(470,180)**	(213,365)
Issue of common shares	**1,999,650**	21,500
Issue of special warrants	**2,239,500**	–
Issue costs	**(333,835)**	(19,069)
Increase in long-term debt	**900,000**	700,000
	4,335,135	489,066
Investing activities		
Exploration and development	**(3,116,996)**	(3,709,300)
Property acquisitions	**(5,605,114)**	–
Proceeds from property dispositions	**200,000**	1,254,587
Changes in non-cash working capital *(Note 7)*	**566,000**	(627,000)
Abandonment costs paid	**(51,956)**	(3,500)
	(8,008,066)	(3,085,213)
Increase (decrease) in cash resources	**(25,658)**	14,425
Cash resources, beginning of year	**38,378**	23,953
Cash resources, end of year	**12,720**	38,378
Cash flow per share from operations		
Basic	**0.226**	0.176
Fully diluted	**0.217**	0.176

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2001 and 2000

1. NATURE OF BUSINESS

Del Roca Energy Ltd. ("Del Roca" or "the Corporation") is engaged in the exploration for and development of petroleum and natural gas reserves in Canada.

2. ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. In preparing these financial statements, management is required to make estimates and assumptions in the calculation of certain assets, liabilities and contingent liabilities at the date of the financial statements and in the calculation of certain revenues and expenses incurred during the period then ended. Estimates are integral to the calculation of depletion, future site restoration and the ceiling test. By their nature, these estimates could differ from actual results. In management's opinion, the financial statements have been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the accounting policies summarized below:

Capital Assets

The Corporation follows the full cost method of accounting for petroleum and natural gas properties, whereby all costs associated with the exploration for, and the development of, petroleum and natural gas reserves, whether productive or unproductive, are capitalized in cost centers. Capitalized costs include land acquisition costs, geological and geophysical expenditures, rentals on undeveloped properties and drilling and overhead expenses related to exploration, development and acquisition activities. Proceeds from capital asset sales are credited to the net book value of the property and equipment. Gains and losses are not recognized upon disposition of oil and gas properties unless the disposition would significantly alter the rate of depletion.

Capitalized costs are depleted and amortized using the unit-of-production method based on gross proved oil and gas reserves as determined by independent engineers. For purposes of the depletion calculation, proved oil and gas reserves are converted to a common unit of measure on the basis of six-thousand cubic feet of natural gas equating to one barrel of oil equivalent; associated liquids are converted to a barrel of oil equivalent on a one-to-one basis. The carrying value of unproved properties is excluded from the depletion calculation.

Under the full cost method, the net carrying cost of the Corporation's properties is subject to a ceiling test. Under this cost recovery test, an estimate is made of the net recoverable amount from future net cash flows from proved reserves plus the net cost of unproved properties, less estimated future site restoration costs, general and administrative expenses, interest costs and income taxes, all valued at constant prices. If the net carrying cost of the oil and gas properties exceeds the estimated recoverable amount, the excess is charged against operations as depletion.

Future site restoration costs are provided for on a unit-of-production basis over the estimated economic life of the underlying reserves. Costs are estimated based on current regulations, costs, technology and industry standards. Actual abandonment and site restoration costs are charged to the provision as incurred.

Computer and office equipment are recorded at cost and amortized against earnings on a declining basis at 30% per year.

Flow-through Shares

The Corporation has financed a portion of its exploration and development activities through the issue of flow-through shares. Under the terms of the flow-through agreements, the income tax deductions attributable to the capital expenditures are renounced to the subscribers. This renunciation increases the Corporation's future tax liability and the cost is charged against the gross proceeds of the share issuance as the renounceable capital expenditures are incurred.

Hedging Activities

Settlement of crude oil or natural gas price swap agreements, which have been arranged as a hedge against commodity price fluctuations, are recognized in product revenues at the time of sale of the underlying hedged production volumes.

Income Taxes

Effective January 1, 2000, the Corporation adopted the accounting recommendation to account for future income taxes based on the liability method, as opposed to the previous deferral method. Under the liability method, the Corporation estimates its future tax liability based on the difference between the carrying value of its assets and liabilities and the corresponding tax values. Future income tax liabilities and assets are calculated using income tax rates anticipated to be in effect in the years in which these differences are expected to be realized.

Joint Venture Activities

Substantially all of the Corporation's petroleum and natural gas exploration and production activities are conducted jointly with others. These financial statements reflect only the Corporation's proportionate interest in such activities.

Per Share Amounts

The Corporation has retroactively adopted the new Canadian Institute of Chartered Accountants recommendations for per share calculations. The new standard utilizes the treasury stock method in the determination of fully diluted per share amounts. Under this method, the fully diluted weighted average number of shares is calculated assuming the proceeds that arise from the exercise of outstanding in-the-money options are used to purchase common shares of the Corporation at their average market price for the period.

Stock Option Plan

The Corporation has a stock option plan as described in Note 5. When stock options are issued, no compensation expense is recorded. Any proceeds received on the exercise of the stock options is credited to share capital.

3. CAPITAL ASSETS

		2001		*2000*
	Cost	***Net Book Value***	*Cost*	*Net Book Value*
Petroleum & natural gas properties	**24,029,424**	**20,338,660**	15,324,260	13,476,059
Office equipment	**110,191**	**51,805**	97,251	58,296
	24,139,615	**20,390,465**	15,421,511	13,534,355

During 2001, the Corporation capitalized $226,962 in respect of administrative costs (2000 - $181,275), including direct geological and geophysical costs totaling $139,250 (2000 - $99,075).

The 2001 ceiling test was performed using actual December wellhead prices of $27.91/bbl for oil and $3.52/mcf for natural gas. Based on these parameters, there is no impairment in the carrying value. The Corporation excludes undeveloped properties with a cost of $383,000 from the depletion and ceiling test calculation (2000 - $383,000). The remaining liability for future abandonment and site restoration is estimated at $1,690,000, which is to be amortized against future production (2000 - $686,000).

4. LONG-TERM DEBT

Long-term debt consists of a $10,000,000 revolving production loan of which $5,900,000 was outstanding at December 31, 2001 (2000 - $5,000,000). The credit facility bears interest at prime plus 1/2 % and is secured by a $25,000,000 debenture and title to certain petroleum and natural gas properties. During 2001, Del Roca paid $410,892 in respect of interest and various bank charges.

5. SHARE CAPITAL

(a) Authorized

Unlimited common shares-voting

Unlimited preferred shares-voting

(b) Issued

(i) Common Shares

	Number	*Amount*
Balance at December 31, 1999	15,048,089	$6,621,768
Issued pursuant to final closing of public offering	43,000	21,500
Issued as compensation to management and staff	99,000	49,500
Cost of share issuances	–	(19,069)
Repurchased under normal course issuer bid	(430,500)	(185,999)
Tax effect of capital expenditures renounced under flow-through agreements	–	(526,000)
Financing cost related to flow-through renunciations	–	(27,365)
Balance at December 31, 2000	14,759,589	$5,934,335
Issued on exercise of employee options	**125,000**	**73,000**
Issued on exercise of agent's options	**269,500**	**134,750**
Issued on exercise of warrants	**401,000**	**240,600**
Repurchased under normal course issuer bid	**(793,500)**	**(470,181)**
Excess of repurchase price over average stated capital	–	**143,800**
Issued on private placements	**2,364,638**	**1,551,300**
Costs of share issuances, net of tax effect	–	**(99,198)**
Tax effect of capital expenditures renounced under flow through agreement	–	**(105,000)**
Balance at December 31, 2001	**17,126,227**	**$7,403,406**

During the period February 2000 to February 2001, the Corporation was approved under a normal course issuer bid to repurchase for cancellation a maximum of 753,000 of its common shares at market prices. Commencing March 29, 2001 for a 12-month period, the Corporation entered into a second normal course issuer bid for a maximum of 1,001,000 shares. Subsequent to year-end, to February 22, 2002 the Corporation purchased an additional 86,500 shares at a cost of $49,100.

The Corporation records the tax value of qualifying expenditures renounced under flow through agreements as a cost of capital when the qualifying expenditures are incurred. Effective December 2001, the Corporation renounced $928,000 for shares issued under flow-through agreements. As of December 31st the Corporation had incurred $249,000 of qualifying expenditures; the remaining $679,000 will be incurred during 2002. Financing costs related to flow through renunciations represents a federal charge levied for incurring the expenditures in the period after the effective date of renunciation.

For 2001, the Corporation had 14,991,453 weighted average shares outstanding (2000 – 15,084,920). Under the treasury stock method, the Corporation had 15,627,690 fully diluted shares for the year (2000 – 15,084,920).

(ii) Special Warrants

	Number	*Amount*
Issued under private placement	**3,539,166**	**$ 2,239,500**
Cost of warrant issuances, net of tax effect		**(94,386)**
Balance at December 31, 2001	**3,539,166**	**$ 2,145,114**

During 2001 the Corporation issued 2,379,166 special warrants and 1,160,000 flow-through special warrants for gross proceeds of $2,239,500. Effective December 31, 2001 the Corporation renounced $812,000 in respect of the flow-through special warrants; the qualifying expenditures are to be incurred in 2002. Each special warrant and flow-through special warrant is convertible into one common share of the Corporation at no additional cost. The warrants expire not later than October 19, 2002.

(c) Stock Options

The Corporation has a stock option plan under which the Board of Directors may grant options to directors, officers, other employees and key consultants. The purpose of the plan is to advance the interests of the Corporation by encouraging these individuals to acquire shares in the Corporation and thereby remain associated with, and seek to maximize the value of, the Corporation. Under the plan the Corporation is authorized to issue options to purchase up to 10% of the number of issued and outstanding common shares and no individual may hold options representing more than 5% of the total issued and outstanding shares. The options expire not more than five years from the date of grant, or earlier if the individual ceases to be associated with the Corporation. Options for employees of the Corporation vest immediately upon grant.

As at December 31, 2001, the following stock options were outstanding:

	Number	*Price*	*Expiring on*
Directors, officers, key consultants	690,000	0.60	Nov 8, 2003
Directors, officers, key consultants	400,000	0.50	Jan 24-Aug 8, 2005
	1,090,000		

The continuity in the number of stock options is as follows:

	Number	*Wtd. Avg. Price*
Balance, December 31, 1999	1,149,875	0.60
Granted	450,000	0.50
Expired	(179,875)	0.61
Balance, December 31, 2000	1,420,000	0.57
Exercised	**(125,000)**	**0.50**
Expired	**(205,000)**	**0.59**
Balance, December 31, 2001	**1,090,000**	**0.56**

(d) Warrants and Agents' Options

	Share Purchase Warrants		*Agents' Options*	
	Number	*Wtd. Avg. Price*	*Number*	*Wtd. Avg. Price*
Balance, December 31, 1999 and 2000	445,000	0.60	269,500	0.50
Exercised	**(401,000)**	**0.60**	**(269,500)**	**0.50**
Expired	**(44,000)**	**0.60**	–	–
Issued	**210,368**	**0.60**	**207,892**	**0.60**
Balance, December 31, 2001	**210,368**	**0.60**	**207,892**	**0.60**

Pursuant to a public offering under a prospectus dated November 30, 1999, the Corporation issued a total of 445,000 unit for $0.50/unit consisting of one common share and one warrant exercisable into one common share for a conversion price of $0.60/warrant. The warrants were initially issued for a twelve-month period to expire November 30, 2000 but were extended to May 31, 2001. Under the same prospectus offering, the selling agents were granted a total of 269,500 options exercisable into common shares at a conversion price of $0.50/option until May 31, 2001.

Under the terms of an agency agreement for the private placement of special warrants the Corporation has granted 210,368 special brokers warrants exercisable on a one-for-one basis into common shares at a conversion price of $0.60/common share until August 30, 2003.

Under the terms of a second agency agreement for the private placement of common shares under an Offering Memorandum dated November 16, 2001, the Corporation has granted 207,892 agent's options exercisable on a one-for-one basis into common shares at a conversion price of $0.60/common share until December 20, 2002.

6. INCOME TAXES

The Corporation's income tax provision differs from the amount calculated by applying the combined federal and provincial corporate tax rate to the net income. The difference is accounted for as follows:

	2001	*2000*
Net income before income tax	**1,624,281**	1,544,062
Combined corporate tax rate	**42%**	42%
Calculated tax provision	**684,100**	650,400
Add/(deduct)		
Crown charges	**298,000**	295,400
Federal resource allowance	**(451,200)**	(406,900)
Other	**11,100**	(19,900)
Future income tax expense	**542,000**	519,000

The Corporation has approximately $15.3 million of tax pools remaining at December 31, 2001, plus $370,000 in available share issue costs. Approximately $3.0 million of these pools are restricted under provisions of the Income Tax Act, limiting their deduction to income generated from certain properties. During 2001, the Corporation paid $39,500 in respect of capital taxes and resource surcharges.

The components of the net future income tax liability are:

	2001	*2000*
Capital assets	**2,265,200**	1,649,250
Share issue costs	**(155,700)**	(67,200)
Future site restoration	**(35,700)**	(15,000)
Net future income tax liability	**2,073,800**	1,567,050

7. CHANGES IN NON-CASH WORKING CAPITAL

	2001	*2000*
Increase in accounts receivable	**(203,354)**	(280,791)
Decrease (increase) in acquisition deposit	**350,000**	(350,000)
Increase (decrease) in accounts payable	**684,159**	(57,799)
(Decrease) increase in capital taxes and surcharge	**(1,450)**	21,300
	829,355	(667,290)

Allocated to:		
Operating activities	**263,355**	(40,290)
Investing activities	**566,000**	(627,000)

8. SEGMENTED INFORMATION

During the year, the Corporation operated primarily in the oil and gas industry in Canada and as such is defined as having only one industry segment.

9. FINANCIAL INSTRUMENTS

Fair Value

At December 31, 2001 the estimated fair market value of accounts receivable and accounts payable approximates the book value due to the short-term nature of these accounts. The fair market value of the long-term debt approximates its book value as the debt carries a floating rate of interest.

Credit Risk

Virtually all of the Corporation's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risk. Oil is generally sold under 30 day contracts to several purchasers. The majority of the Corporation's natural gas is sold under a long-term contract to a major natural gas aggregator.

Hedging Activities

In the normal course of business the Corporation entered into several commodity price hedges with its major product purchasers. Each hedge was based on a fixed New York Mercantile Exchange (NYMEX) price in U.S. dollars. Had the Corporation not entered into these contracts, oil revenues for 2001 would have decreased by $199,000 and natural gas revenues would have decreased $155,000. At December 31, 2001 the Corporation had no hedges in place.

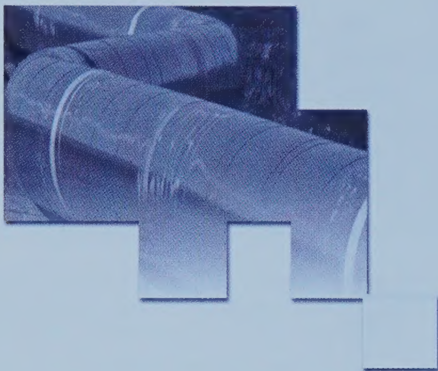
10. SUBSEQUENT EVENT

In January 2002, the Corporation acquired, for cash, the working interests of a partner in an operated producing property. The gross purchase price was $207,500.

11. COMMITMENTS

The Corporation has a lease on its office space until May 2005. Lease payments consist of base rent plus operating costs and property taxes, and are estimated as follows:

2002	$88,800
2003	92,800
2004	94,500
2005	39,400
	$315,500



ABBREVIATIONS

ARTC	Alberta Royalty Tax Credit
bbl	barrel (oil or NGLs)
mbbl	thousand barrels
bpd	barrels per day (oil and NGLs)
bopd	barrel of oil per day
boe	barrel of oil equivalent, where natural gas is converted to barrel of oil equivalent using a ratio of 6 mcf to one boe
boepd	barrel of oil equivalent per day
mboe	thousand of barrels of oil equivalent
NGL	natural gas liquids
mcf	thousand cubic feet of natural gas
mmcf	million cubic feet of natural gas
mcfd	thousand cubic feet of natural gas per day

Statements throughout this annual report that are not historical facts may be considered "forward looking statements." These forward looking statements may include words to the effect that management believes or expects a stated condition or result. All estimates and statements that describe the Company's objectives, goals or future plans are forward looking statements. Since forward looking statements address future events and conditions, by their very nature they involve inherent risks and uncertainties and actual results could differ materially from those currently anticipated.

Corporate information

DIRECTORS
STANLEY W. ODUT
Director, President and
Chief Executive Officer

RICHARD N. GATEMAN
Director [3]

JAMES E. ECCOTT
Director [1] [2] [3]

KEVIN L. NORMAN
Director [1] [2]

[1] Audit committee
[2] Reserves audit committee
[3] Compensation committee

MANAGEMENT
STANLEY W. ODUT, P. ENG.
President and Chief Executive Officer

DOUGLAS E. MARSHALL, P. ENG.
Vice-President, Operations

DALE R. RENZ, CA CFP
Controller and Chief Financial Officer

BRADLEY J. CAMPBELL, P. ENG.
Manager, Engineering

AUDITORS
Meyers Norris Penny LLP
600, 808 - 4th Avenue S.W.
Calgary, Alberta T2P 3E8

BANKERS
Alberta Treasury Branches
239 - 8th Avenue S.W.
Calgary, Alberta T2P 1B9

REGISTRAR AND TRANSFER AGENT
Computershare Trust Company of Canada
600, 530 – 8th Avenue. S.W.
Calgary, Alberta T2P 3S8

EVALUATION ENGINEERS
Chapman Petroleum Engineering Ltd.
445, 708 - 11th Avenue S.W.
Calgary, Alberta T2P 1B9

CORPORATE OFFICES
DEL ROCA ENERGY LTD.
610, 700 - 4th Avenue S.W.
Calgary, Alberta, Canada T2P 3J4

Phone: (403) 261-5060
Fax: (403) 266-1462
Email: delroca@delroca.com
Website: www.delroca.com

Canadian Venture Exchange: "DRQ"

DEL ROCA ENERGY LTD.
610, 700 - 4th Avenue S.W.
Calgary, Alberta, Canada T2P 3J4

Phone: (403) 261-5060
Fax: (403) 266-1462
Email: delroca@delroca.com
Website: www.delroca.com

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